B5350-2 3/24/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 22, 1982 VOLUME XIX, NUMBER 12

Weak Corporate Finances . . .

With expectations rapidly receding that stepped-up household spending for new homes and automobiles will provide the momentum to escape the doldrums of this recession, the pace of business capital goods spending may well determine both the timing and strength of any economic rebound. Unfortunately, if this is the case, the economic outlook is bleak. For despite the investment incentives given to business by the Administration as part of its economic recovery program, a number of industries have proceeded to scale back their capital spending plans. According to the Commerce Department, businesses now expect to trim plant and equipment outlays by one per cent this year, after adjustment for inflation, following virtually no change in 1981. Clearly, corporations are being influenced more by the sizable chunks of idle capacity and record high real interest rates, rather than the beneficial impact of new tax policies.

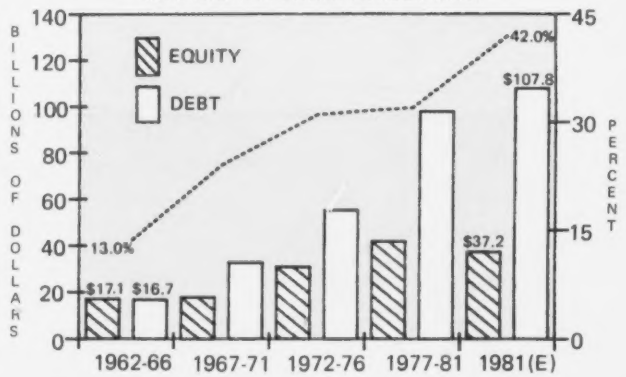
Underlying corporate America's lackluster investment performance in recent years has been the ongoing deterioration of corporate liquidity positions. One of the major factors accounting for this has been the sluggish growth of corporate earnings. Hard-hit by weak "real" final sales, escalating labor, energy and financing costs as well as slumping productivity performance, many corporations have experienced only modest profits growth at best, and sharp losses at worst. This trend was highlighted once again in the fourth quarter of 1981 when profits from current production—which excludes temporary inventory profits—skidded at a $16.2 billion seasonally adjusted annual rate quarter-over-quarter, or by 8.3 per cent. Ominously, the profits weakness was confined not only to the long-suffering housing, auto and airline industries, but extended into such previously prosperous areas as high technology, where the demand for semiconductors and business equipment waned.

. . . Plus Lofty Borrowing Costs . . .

Perhaps the most far-reaching by-product of stagnant corporate profitability, together with the associated inability of the stock market to achieve a firmer footing, has been the extremely slow accretion of the capital base of many companies—which, in turn, has fueled their dependence upon debt. Whereas U.S. nonfinancial corporations were adding more than $1 of equity to their balance sheets in the early 1960s for each dollar of debt, by 1981 they were adding just about $3 of debt for each dollar of equity (see Chart I).

And when you consider that the largest proportion of equity growth consisted of retained earnings (adjusted for inventory profits and replacement cost depreciation), the diminished role of stocks as a source of corporate finance becomes even more striking; during the 1977-81 period, the dollar value of new debt additions to corporate balance sheets exceeded new stock additions by a staggering 165 to 1. What is more, since an ever-growing proportion of this debt was of short maturity, while at the same time short-term interest rates were spiking to record high levels, it is hardly surprising that most of the traditional indicators of corporate financial health deteriorated—many to historic depths.

CHART I
NET ADDITIONS TO EQUITY AND DEBT BY U.S. NONFINANCIAL CORPORATIONS (BARS) VS. CORPORATE INTEREST BURDEN (DOT)



. . . Derail Prospects . . .

The ratio of short-term liabilities to total liabilities, for example, jumped from less than 35 per cent in 1976 to more than 41 per cent currently, indicative of the difficulties of corporations in securing long-term finance. Since this liquidity indicator can be

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considered a proxy for the investment horizon of these entities, the upward spiral of this ratio does not bode well for the undertaking of those projects possessing either a significant degree of innovation or long payout periods.

While debt-financed business expansion is both useful and prudent as long as profitability grows apace, for business as a whole this has not been the case. Slumping profitability and woefully inadequate depreciation set-asides have retarded the growth of corporate cash flow, while rising short- and long-term interest rates, together with massive increases in debt outstanding, have ballooned the debt service burden. As Chart I indicates, interest expenses alone absorbed about 42 per cent of net corporate cash flow in 1981, well above the approximately 28 per cent level prevailing at the bottom of the last recession, and more than three times the proportion devoted to interest payments in the early 1960s.

. . . For A Capital Goods-Led Recovery

With the role of equity-financed expansion diminished and high cost, short-term debt finance being increasingly relied upon to either maintain or expand capital spending levels, project selection has become much more difficult. Undoubtedly, since

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/10/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	131.533	– 3.651	+ 6.047
Loans to Depository Inst.	1.447	– .119	+ .679
Float	3.056	– .079	+ .042
Total Reserve Bank Credit	144.880	– 4.376	+ 5.685
Treasury Deposits with Federal Reserve Banks	3.630	– .298	+ .608
Currency Outside Banks	124.953	+ .004	+ 6.350
Member Bank Reserves:			
Required	38.169	– 2.393	– .699
Excess (Deficiency)	.254	– .282	+ .024
Total Reserves Held	38.423	– 2.675	– .675
Net Borrowed Reserves	1.042	+ .159	+ .689
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.264	+ .654	– 2.465

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		448.4	+ 9.0‡	+ 6.2‡
M2	(February '82)	1,845.6	+ 7.9	+ 10.0
M3	(February '82)	2,213.6	+ 7.2	+ 10.6
L	(November '81)	2,625.3	+ 10.3	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/19/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.30%	12.40%	11.90%
* Federal Agencies	13.81	13.91	14.18
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.55	14.55	15.00

‡Finance Company Paper—Prime

5- 14 days	13.00%
15- 29 days	13.50
30- 59 days	13.50
60- 89 days	13.00
90-179 days	13.00
180-239 days	13.00
240-270 days	13.00

‡* Bankers' Acceptances

Apr.	14.20%
May	14.10
Jun.	13.90
Jul.	13.80
Aug.	13.70
Sep.	13.60

‡Industrial Paper—Prime

30- 89 days	14.13%
90-120 days	14.00

†Federal Funds Effective Rate 14.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.5	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82	3.6%	4.8%	9.6%
Change in Producer Prices*	Feb '82	– 1.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Feb '82	99,590	99,581	100,069
Unemployment as % of Civilian Labor Force†	Feb '82	8.8%	8.5%	7.4%
Personal Income*	Feb '82n	$ 2,510	$ 2,498	$ 2,318
Leading Indicators Composite Index (1967=100)†	Jan '82	127.0	127.8	135.2
Industrial Production Index (1967=100).†	Feb '82n	141.8	139.6	151.8
Net Change in Consumer Installment Credit†	Jan '82	$ 0.44	–$ 0.03	$ 1.21
U.S. Merchandise Trade Balance †	Jan '82	–$ 4.09	–$ 0.86	–$ 3.71
Plant and Equipment Expenditures*	2nd Q'82n	$336.77	$345.46	$316.73
Private Housing Starts (Thousands of Units)*	Feb '82n	953	895	1,294
New Construction Expenditures*	Jan '82	$ 231.0	$ 234.4	$ 259.0
Total Business Inventories†	Jan '82	$ 509.7	$ 511.8	$ 478.5
Total Business Sales†	Jan '82	$ 336.9	$ 342.3	$ 352.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

balance sheets are already top-heavy with debt, interest rates at lofty heights, debt service absorbing a record proportion of cash flow and capacity utilization near postwar lows, the rate of return required to proceed with contemplated projects has also soared. While this rate will vary widely depending upon industry and management philosophy, as a general rule, rates of return of at least twice borrowing costs are necessary for project implementation to begin. And with before-tax financing costs hovering in the mid-teens in both the money and bond markets, "hurdle" rates of return of 30 per cent, if not more, have become necessary in order to justify capital expenditures.

This suggests, in turn, that near-term capital spending will become increasingly biased toward those projects which possess either relatively short payout periods, offer a high degree of liquidity or substantially reduce costs. Alternatively, those projects which do not possess these attributes, such as new capacity additions in basic industries like auto and steel, will be either postponed or shelved altogether. This would not only preclude a capital goods-led recovery in particular, but it also jeopardizes the entire "supply-side" economic program as well—and provides one principal reason why "real" investment spending in 1981 stood almost seven per cent below the peak reached in 1979.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/3/82)	134,340	– 801	+24,263
New York City (3/3/82)	32,846	– 478	+ 6,132
Commercial Paper (3/3/82)	168,449	+ 111	+37,542

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/3/82)	198,828	– 122	+28,391
New York City (3/3/82)	55,529	– 456	+ 5,979

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/3/82)	472,287	– 214	+46,387
New York City (3/3/82)	109,692	– 688	+ 9,377

Financial Markets

	Friday 3/19/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.49%	+ .22	+ 1.09
180-Day Bills†	13.49	– .42	+ 1.79
Longest Bills†	13.91	– .14	+ 2.41
Recent Issues:			
14 1/8s 3/31/84 (When Issued)	14.30	– .04	
14 1/8s 12/31/85	14.12	– .01	
14 5/8s 2/15/92	13.64	– .32	
14s 11/15/11	13.41	– .21	
Municipals:			
Bond Buyer–20 Bond Index* (3/18/82)	12.99%	+ .28	+ 3.18
Blue List Total ($ Million)	$ 934	– $153	+ $ 213
30-Day Visible Supply ($ Million)	$2,351	+ $305	+ $ 99
Total	$3,185	+ $ 52	+ $ 212
Corporates:			
Moody's Aa Composite (3/18/82)	15.19%	– .03	+ 1.55
30-Day Visible Supply ($ Million) ‡	$2,635	NA	NA
Stocks:			
Dow-Jones Averages:			
Industrials	805.65	+ 8.28	– 187.15
Transportation	329.16	+ 9.16	– 89.43
Utilities	106.58	+ 0.57	– 2.55
65 Stocks	317.19	+ 4.68	– 65.70
Standard and Poor's 500 Stocks	110.61	+ 2.00	– 23.47
N.Y.S.E. Composite Index	63.62	+ 1.10	– 8.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,678	–12,458	– 10,584

* 46% Taxable equivalent 24.06%.

† Bond equivalent.

‡ Series redefined: Historical data not available.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/19/82	Week Ago
Overnight	15.19%	14.63%
1 month	15.25	14.94
3 month	15.25	14.94
6 month	15.19	14.94
1 year	15.13	14.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.70%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.80

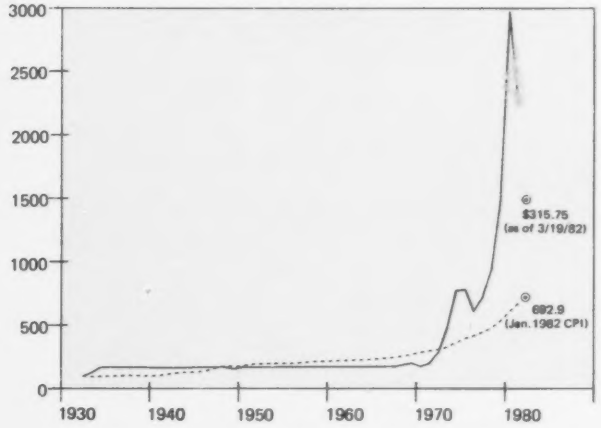
FOREIGN EXCHANGE SPOT RATES

New York Opening (3/19/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02230	44.85
Canada	.8203	1.2190
Denmark	.1237	8.0813
France	.1607	6.2225
Germany	.4194	2.3845
Italy	.0007616	1313.00
Japan	.004106	243.53
Mexico	.02222	45.00
Netherlands	.3810	2.6245
Switzerland	.5261	1.9008
U.K.	1.8017	.5550

All That Glitters

The glitter of gold appears to have faded for the speculator, investor and saver. Last week the market price of gold fell to $316 per ounce, down 20 per cent from the first of this year and a huge 63 per cent from its peak on January 21, 1980. Because the popularity of gold is largely due to its attractiveness

CHART II
GOLD PRICES (LINE) VS.
THE CONSUMER PRICE INDEX (DOT)
(1932=100)



as a hedge against inflation, as inflation has slowed, preservation of the purchasing power of money has become a less critical factor. What is more, high interest rates have created an opportunity cost (in terms of returns available on funds invested in debt instruments) in addition to the cost of storage.

Nevertheless, as an inflation hedge, gold is still overvalued. Between 1932 and the present, consumer prices increased almost seven times while the price of gold has jumped to a level over 15 times higher (see Chart II). At one point in January, 1980 it was about 30 times higher than 1932 levels. The price of gold began to deviate sharply from the inflation rate in 1973 coincident with a commodity price boom and the first jump in oil prices. It continued to escalate, peaking in January, 1980, after rising interest rates, the growing strength of the dollar and the better political climate in the United States made investment in dollar-denominated assets increasingly attractive. The uncertainties instigated by the rapid rise in energy prices evidently had encouraged speculation which raised the price of gold beyond the point it would have reached purely as a hedge against inflation (about $150 per ounce). As this uncertainty has faded, the speculative premium has shrunk.

The present oversupply of oil which has resulted in falling oil prices has also added to gold's recent price decline: Some oil producing countries have reduced their gold purchases while others may actually be selling gold in order to raise cash. In addition, South Africa and the U.S.S.R. appear to be selling increased portions of their gold stocks in order to generate foreign exchange to meet their rising external obligations. As long as interest rates remain high, inflation moderate and no war or other crisis erupts, gold's price will continue to soften. ■

THE SHAREHOLDERS RELATIONS FITNESS TEST.

STRENGTH:
Effective shareholder relations start with a stock transfer agent backed by an ongoing investment in hardware, software and "peopleware."

At Manufacturers Hanover, we're committed to having on-line the latest generation of computers with the most sophisticated programming capabilities available.

TRANSIFAC℠ the nerve center of our entire operation, has a track record no competitor can match. Just ask any of the some 400 corporations we serve.

WEIGHT:
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REFLEXES:
At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:
Our TRANSIFAC system maintains fully computerized audit controls over all work; keeps track of certificate inventory; and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:
Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

If your present stock transfer agent looks out of shape to you, talk to Manufacturers Hanover. For more information on our stock transfer and registration services, contact Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, N.Y., N.Y. 10015.

IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.